



About the Cover

The outside cover of the 1965 Annual Report presents a panoramic view of a large, new full-line Penney department store with auto center and garden shop. The inside cover depicts, with the exception of the auto center, activity inside the store in terms of merchandise and services.



GARDEN SHOP



J. C. PENNEY COMPANY ANNUAL REPORT 1965

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The J. C. Penney Building with its "crown of light" has become a nighttime landmark in the New York City area. By day, functions characteristic of a modern department store operation ranging from the selection of merchandise to the preparation of catalogs are performed in the Company's executive and buying headquarters.

THE J. C. PENNEY COMPANY LIFE



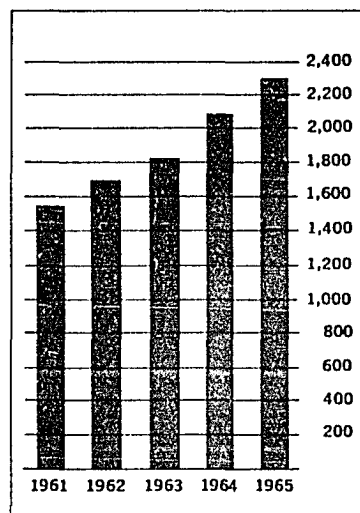
1965 at a Glance

FOR THE YEAR

	52 weeks ended January 29, 1966	Year ended January 31, 1965
Sales	\$2,289,209,426	\$2,079,425,668
Net earnings	\$78,898,254*	\$68,271,402
Dividends paid	\$43,034,080	\$37,406,836

Total Sales

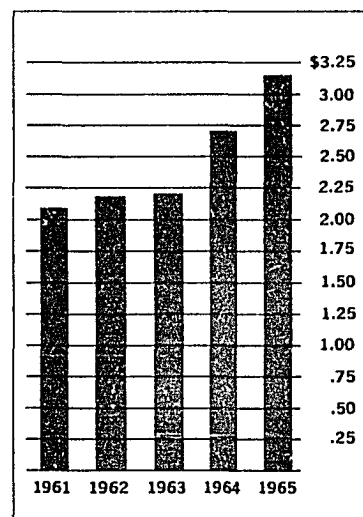
millions of dollars



PER SHARE OF COMMON STOCK

	52 weeks ended January 29, 1966	Year ended January 31, 1965
Net earnings	\$3.16*	\$2.74
Dividends paid	\$1.72½	\$1.50

Net Earnings Per Share



*Includes net gain of \$2,840,865, or 11 cents per share, from the sale of Penney's former headquarters building in New York.



William M. Batten, Chairman and chief executive officer, (left) and Ray H. Jordan, President and chief administrative officer

Your Company continued its progress in fiscal 1965 as both sales and earnings reached record levels.

Sales in 1965 totaled \$2,289,209,426, an increase of 10.1 per cent over last year. Net earnings rose 15.6 per cent to \$78,898,254, equal to \$3.16 per share. Included in these earnings is a non-recurring gain of \$2,840,865, or 11 cents a share, from the sale of our former headquarters building in New York.

Dividends of \$1.72½ per share were paid in fiscal 1965, an increase of 15 per cent over the former rate of \$1.50 per share.

Penney's has been engaged for several years in implementing the various elements of a "blueprint for the future" designed to enable the Company to secure a larger share of consumer disposable income. This over-all plan resulted from a comprehensive study which was conducted to determine how we could best respond to the probable growth rate of the economy as well as consumer purchasing trends.

The Company's strategy contains two basic elements: one, the broadening of merchandise assortments to include a greater representation of hard goods such as household appliances, television sets and automobile accessories and tires,

and two, the introduction of services such as charge accounts and catalog shopping to make shopping at Penney's easier.

Much of this Annual Report is devoted to describing in some detail the progress made in 1965 toward translating into reality your Company's "blueprint for the future." This program involves substantial added costs during the initial years, but we are confident that these costs represent an investment that will help to insure a stronger, more vigorous Company in the future. Favorable customer response to the expanded dimensions of our operations has been gratifying.

The implementation of our expansion program requires, above all, the support of loyal and dedicated people. We recognize the unceasing efforts of thousands of associates and suppliers who contributed so significantly to the progress achieved in 1965.

In summary, 1965 was a good year for your Company in terms of both operating results and progress attained in our long-range expansion plan. Based on current appraisals of the economy, we expect 1966 to be another good year for retailing and for Penney's.

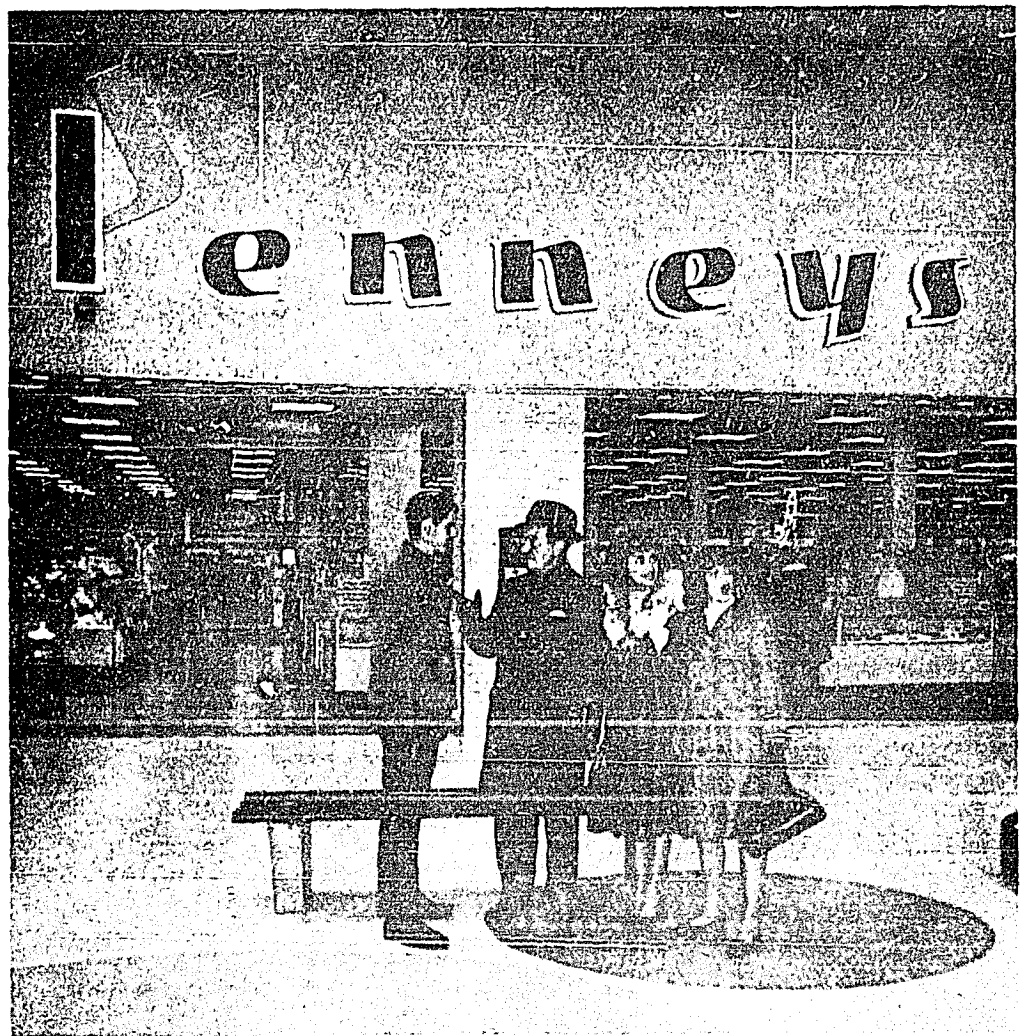
A handwritten signature in cursive script, reading "Ray H. Jordan".

President

A handwritten signature in cursive script, reading "William M. Batten".

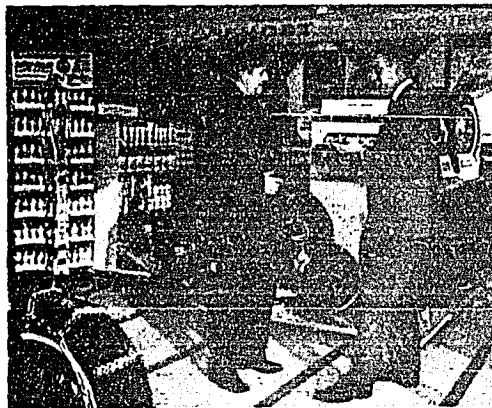
Chairman of the Board

March 24, 1966



*The whole family shops
at Penney's.*

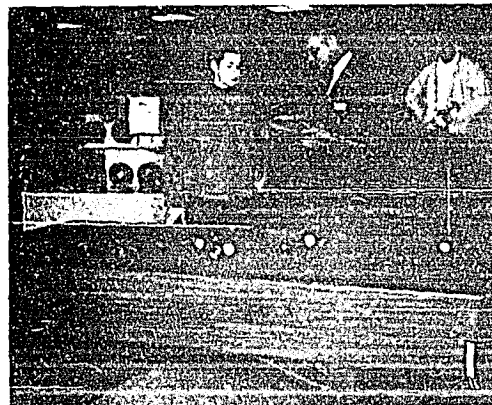
*Father inspects new merchandise
at an auto center.*



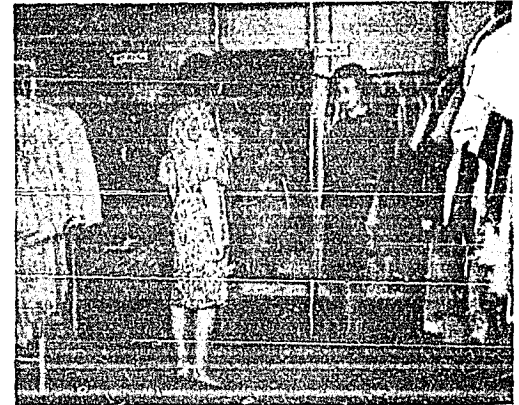
*Mother does some shopping
from a Penney catalog.*



*Son receives pointers
on his pool game
in sporting goods department.*



*Daughter gets helpful advice
as she tries on a dress.*



What Is Penney's?

The Penney Company in the mid-1960s is a blend of the new and the old.

While retailing is dynamic and ever-changing, your Company has been built on certain principles which have remained valid through the years.

For most of its 63 years, Penney's offered customers broad ranges of apparel and limited selections of home furnishings only for cash and in retail stores.

However, in an affluent and convenience-minded America, it became clear that the scope of the Company's operations would have to be broadened with a view toward increasing its appeal to every member of the family.

Since the late 1950s, Penney's has been engaged in enlarging the dimensions of its operations—on the basis of a carefully conceived and research-oriented program designed to meet the requirements of a changing America.

The first step in the expansion pro-

gram came in 1958 with the introduction of credit, which gave customers the option of charging their purchases instead of paying cash.

The next phase of the "blueprint for the future" centered around a broadening of merchandise lines to include hard goods. At the same time, the Company did not neglect its traditional source of strength, soft goods, and has been expanding and improving these lines with particular emphasis on fashion.

As Penney's has enlarged its merchandise assortments, it has also included in its larger, new stores such departments as beauty salons, restaurants, optical shops, portrait studios and fine jewelry in order to add to the stores' completeness.

The convenience factor in shopping at Penney's has been broadened still further by the establishment of decorator centers in stores. Through these centers, customers may arrange appointments in their homes with decorator consultants, who offer shop-at-home service for home furnishings.

The introduction of hard goods and new services as well as the expansion of existing soft goods has resulted in dramatically larger stores in carefully selected markets.

Then, in order to offer customers broader lines of merchandise as well as additional ways of securing it, the Company entered the catalog business in 1962. Customers can make purchases by ordering from Penney catalogs either by mail or telephone. They may also place orders at catalog centers in Penney stores.

As the Company looks to the future, it continues to recognize the principles which have guided the firm and determined its character since 1902. Among those unchanging principles are:

- Economy and efficiency of operation to make possible greater values for customers.
- Merchandise of tested quality and good design to serve the wants and needs of the public.
- Friendly, helpful service to customers.

The Merchandise Story: Expansion, Fashion and Quality

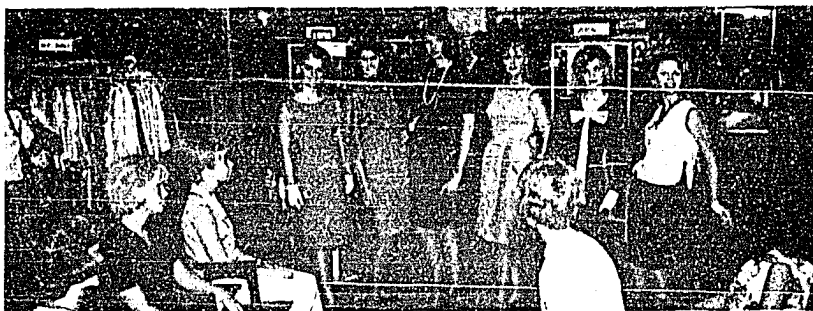
Penney's traditionally has strived to bring wanted, first-quality merchandise to customers. In continuing to implement this policy in 1965, we focused attention on three areas: *expansion, fashion and quality.*

- Expansion came with the opening in Penney stores of 437 additional departments featuring our new lines of merchandise, especially in hard goods. Virtually all of these departments were in the 32 new stores opened during the year.
- We continued to raise the level of fashion in our traditional lines of apparel and home furnishings. A key development here was the introduction of designs by Ariel of Paris, the newest member of our Young International Designers group.
- There was continued strong emphasis on quality, both in hard

and soft goods, to give further dimension to our slogan, "Always First Quality."

1965 was the first full year of operation of the expanded Merchandise Testing Center in our new headquarters building. While maintaining its traditional emphasis on testing samples of Penney merchandise to assure high quality, the Center gave increased attention to a new area of activity—the development of products.

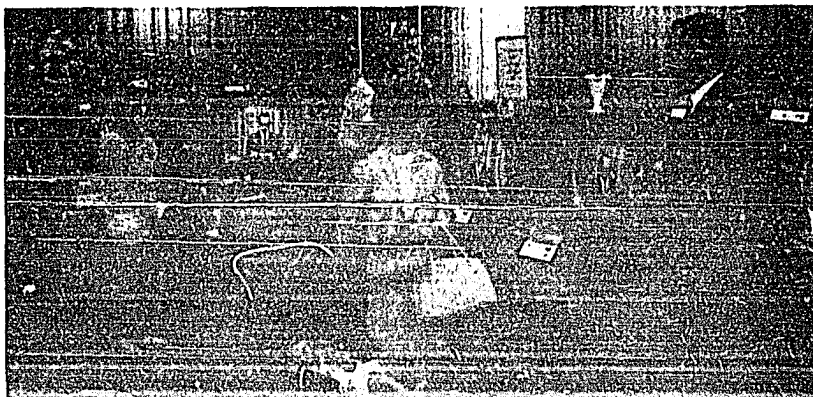
This new emphasis by the Center, working closely with Penney buyers and suppliers, has made your Company a leading innovator in such processes as "permanent press." Within a brief period, an array of merchandise with this finish ranging from men's slacks and shirts to sheets and draperies was offered customers. Penney's also has led the way in setting high performance standards for "permanent press" merchandise.



The accent is on youth as members of a store fashion board model the latest styles for an interested audience

Color is in focus at this TV and Radio Center

Opening of 41 centers during 1965 brought to 215 the total of such units.



Pet shops made their debut in Penney stores during 1965, and, as might be expected, they had strong appeal to the younger set.

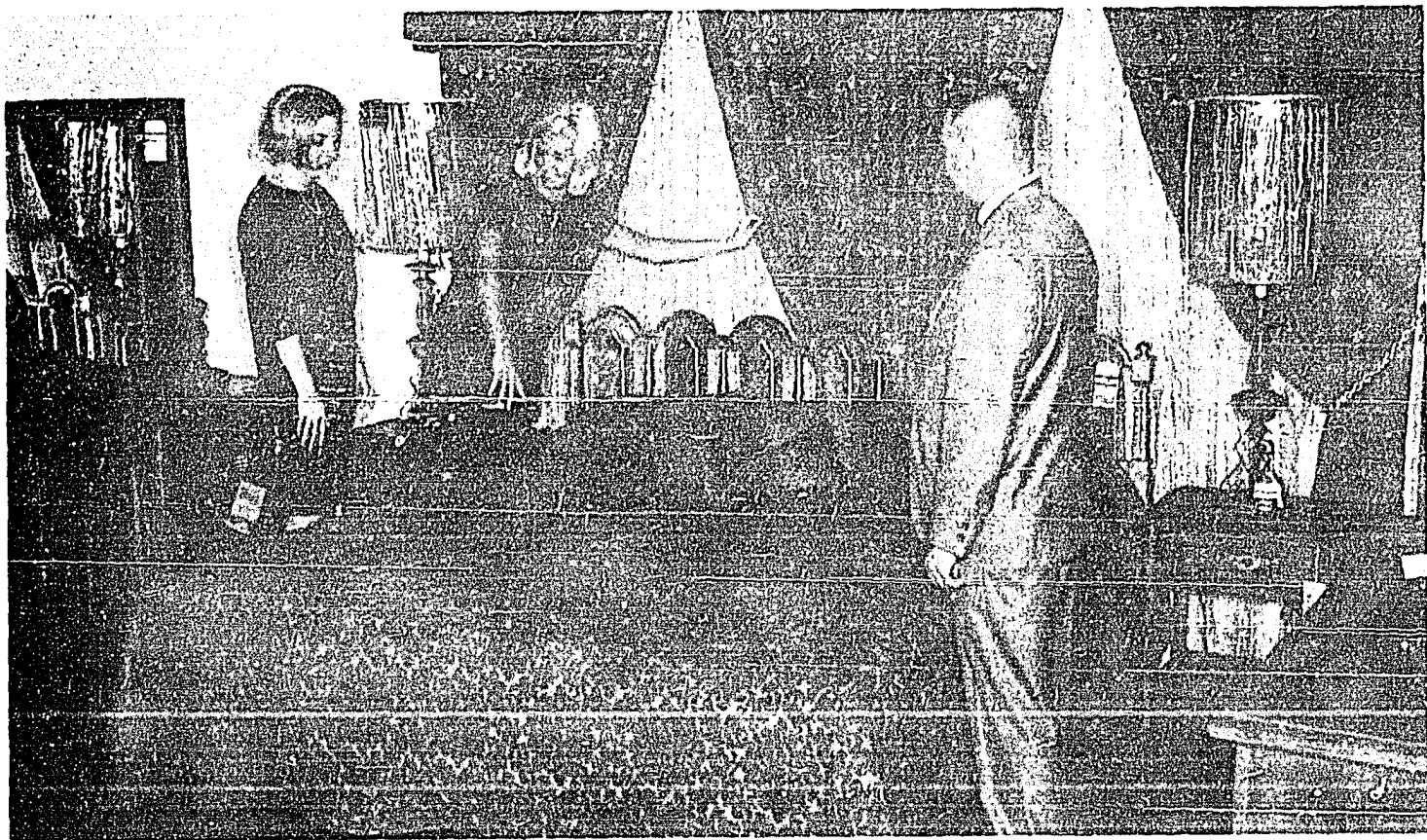
One of our own Penncraft electric bench tools is demonstrated in a paint and hardware department. These departments numbered 107 with 45 openings during 1965.

The convenience of eye-level cooking is a feature of one of Penney's own Penncrest ranges in a major appliance department. There were 138 of these departments at year's end including 32 openings in 1965.

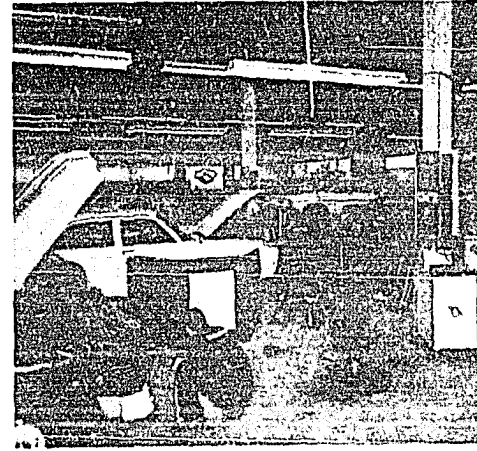
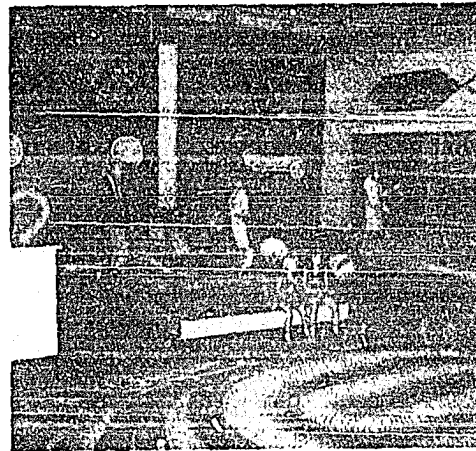
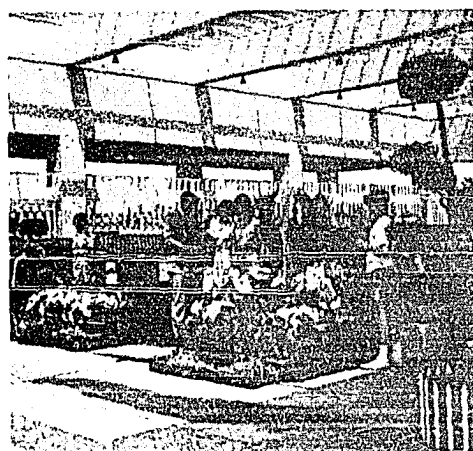
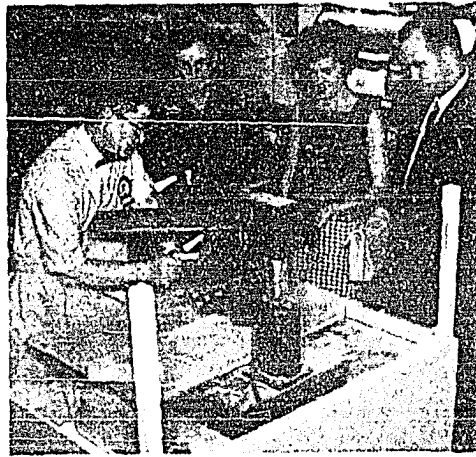
The first complete lawn & garden centers, featuring nursery stock, garden equipment and a wide variety of lawn mowers, were opened during the year.

Floor coverings from area rugs to wall-to-wall carpeting are available in this department which reflects the continuing emphasis on fashion.

"Always First Quality" is the slogan for service as well as merchandise at our auto centers. Penney's had 84 centers in operation at year's end after 48 openings during 1965.



Room settings are used to show customers how furniture will actually look in their homes
The furniture is enhanced by the fashion in the home furnishings. There were 35 furniture departments
at the end of fiscal 1965, reflecting 16 openings during the year



Penney's Catalog Operation Continues to Grow

The dimensions of Penney's catalog operation were broadened dramatically during 1965 in keeping with our objective of establishing a nationwide catalog service by the early 1970s. The achievement of this objective will require additional distribution centers similar to our existing Milwaukee installation.

Among major developments during the year were:

- Opening of 53 more catalog centers in Penney stores, bringing the total of such units to 453 in 16 states.
- Expansion of the catalog operation to the southeastern United States.
- Development of a new in-store catalog center which not only is more attractive but also is more flexible than the former arrangement.
- Intensification of our efforts to encourage telephone ordering through the introduction of central telephone service in many communities for the handling of telephone orders as well as the direct solicitation of customers.

Customers' telephone orders from Penney catalogs are taken by associates in a catalog telephone room. Each of the 53 in-store catalog centers opened during the year is served by a facility similar to the one pictured here.



- Introduction of home delivery service for catalog orders in selected metropolitan areas.
- Launching of construction to expand the Milwaukee catalog distribution center by more than 600,000 square feet to a total area of approximately 2 million square feet.
- Consolidation of Penney retail and catalog charge accounts to permit Penney charge card holders to shop either from catalogs or in retail stores and receive one monthly statement.
- Completion of a multi-million dollar printing and binding plant in Warsaw, Indiana, by R. R. Donnelley & Sons Company primarily for the production of Penney catalogs.

With the 1965 openings, there were at year's end catalog centers in 453 Penney stores in Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North and South Carolina, North and South Dakota, Ohio, Pennsylvania, Virginia and Wisconsin. In addition to the in-store catalog centers, there were five free-

standing catalog stores.

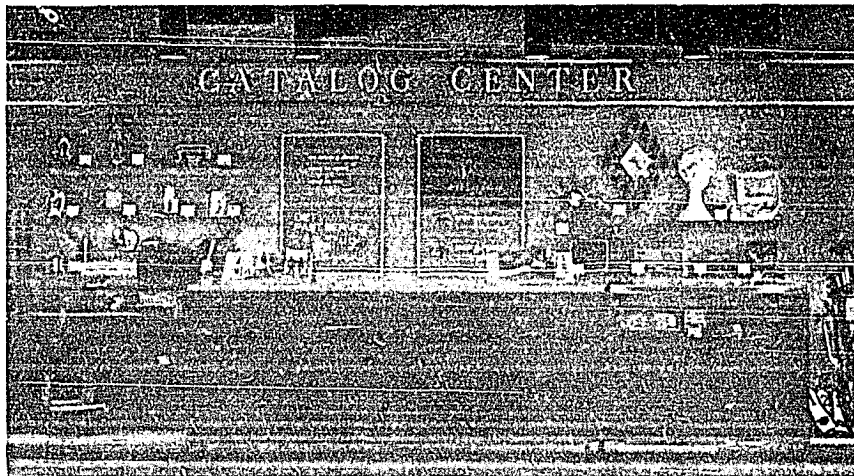
Expansion of the catalog operation to the Southeast came about through the opening of catalog centers in stores in North and South Carolina and Virginia. In order to serve this new area, an Atlanta edition of the Spring & Summer 1966 Catalog was issued along with the Milwaukee edition.

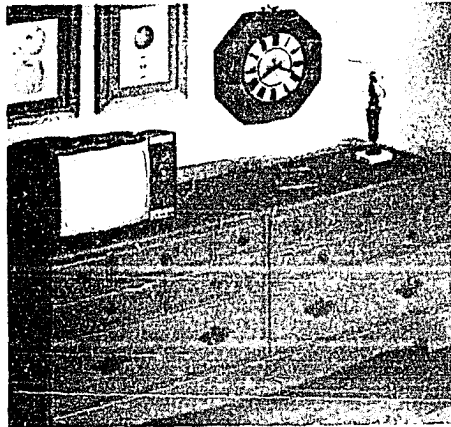
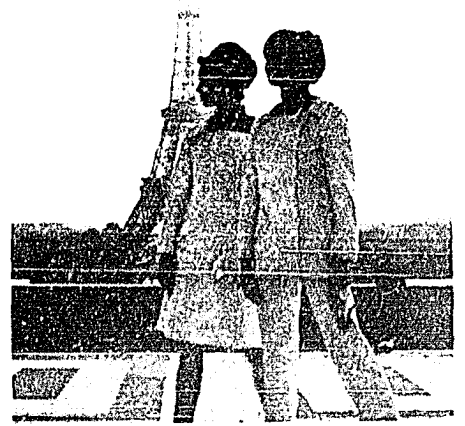
Service to the Southeast is being provided on a fully competitive basis through a combination of bulk air freight shipments to central points and then motor truck distribution to the catalog centers as well as to post office locations. Merchandise is shipped from the Milwaukee catalog distribution center, but customers in this area are charged for transportation on the basis of Atlanta origin.

Expansion in this manner is designed to introduce Penney's catalog service and develop business prior to the ultimate construction of additional distribution centers.

The strong tempo of catalog activity in 1965 reflects further progress toward our goal of a nationwide catalog operation.

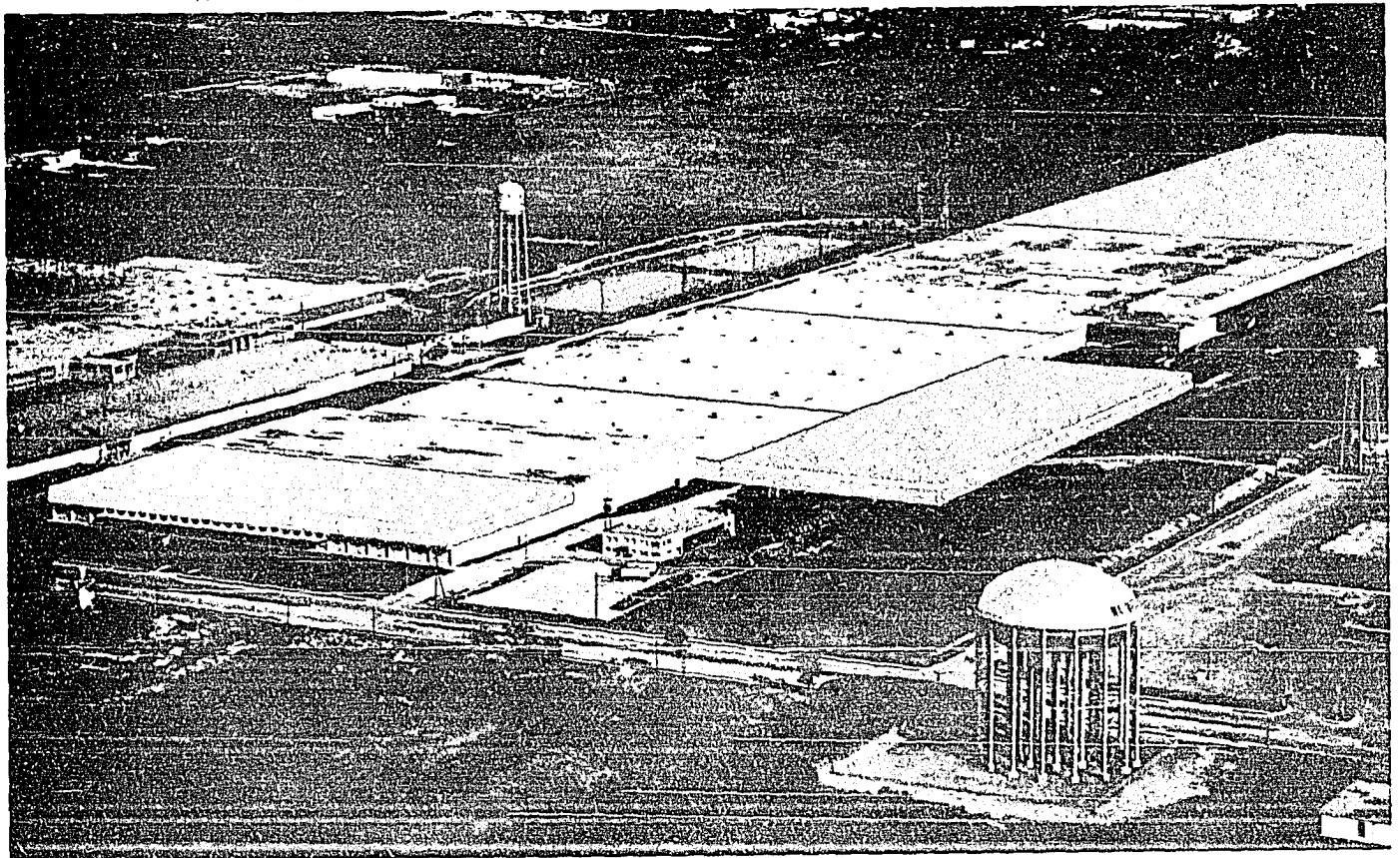
This is the prototype of the new in-store catalog center which was designed and introduced during 1965. The center not only is more appealing to customers than the former arrangement, but also is more flexible in use because the design utilizes modular concept.





Above. A sampling of the broad spectrum of Penney catalog merchandise is shown.

Below. Work was started during 1965 on the expansion of Penney's Milwaukee catalog distribution center. Blue areas on the aerial view of the center show where more than 600,000 square feet will be added, increasing the center's total area to approximately 2 million square feet.



Penney Stores: Appealing Settings for Merchandise, Services

Your Company's "blueprint for the future" places strong and deserved emphasis on the quality of the physical plant. Our objective is to offer Penney merchandise and services in appealing settings where customers will enjoy shopping.

During 1965, Penney's opened 32 new stores. Eight of these stores serve new market areas for the Company, while 24 represent established units which were moved to new buildings.

The 32 new stores opened during the year average almost 86,000 square feet, and 11 of them exceed 100,000 square feet. The largest new unit, at Ford City Shopping Center in Chicago, totals 183,000 square feet including a 12-bay auto service facility. In all, 48 auto centers ranging in size from 4 to 16 bays were opened during 1965. Fifteen smaller stores were closed during the year.

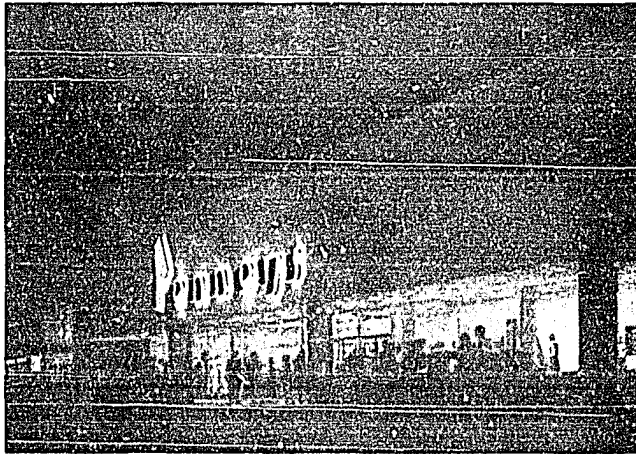
A total of 3.2 million square feet of new store space was added during 1965, increasing to 47.6 million square feet our total store area. Approximately 60 per cent of the total footage is devoted to selling space.

Penney's expansion program will continue at an accelerated pace, with approximately 4 million square feet of new store space planned for 1966. Based on anticipated construction schedules, the year is expected to see the opening of 30 new stores, of which 20 will be existing stores moved to new buildings, and of 45 new auto centers.

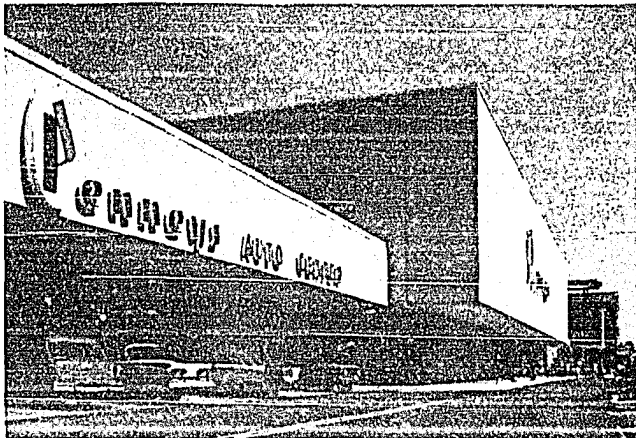
Of vital importance in the real estate and store planning program is the upgrading of existing physical plant. In addition to the 32 new stores opened during the past year, 55 existing units were modernized and enlarged. We constantly seek to make our older stores more appealing in terms of expanded assortments of merchandise and services and improved physical environment.



Penney's 11th store in the Dallas, Texas, area is this 160,000 square foot unit at NorthPark Shopping Center which offers everything from diamonds and furs to automotive merchandise and household appliances. The store is a two-story structure with a free-standing auto center and an outdoor lawn & garden center.



The first full-line, "new look" Penney store in the Chicago area at Ford City Shopping Center has the largest single selling floor in the Company. In addition to an auto center, the store was one of the first with a pet shop and also has several customer service departments such as a restaurant and a beauty salon.



One of the largest new stores opened in 1965 was the 173,000 square foot unit at Northgate Shopping Center, Seattle, Washington. Symbolizing the Company's plans for continued development in the Pacific Northwest, the store incorporates unusual design and construction features, both inside and outside.

1,669 PENNEY STORES SERVE THE AMERICAN CONSUMER

IN THE WEST—447

Alaska 1
 Arizona 21
 California 159
 Colorado 41
 Idaho 28
 Montana 31
 Nevada 6
 New Mexico 20
 Oregon 38
 Utah 25
 Washington 58
 Wyoming 19

IN THE SOUTH—457

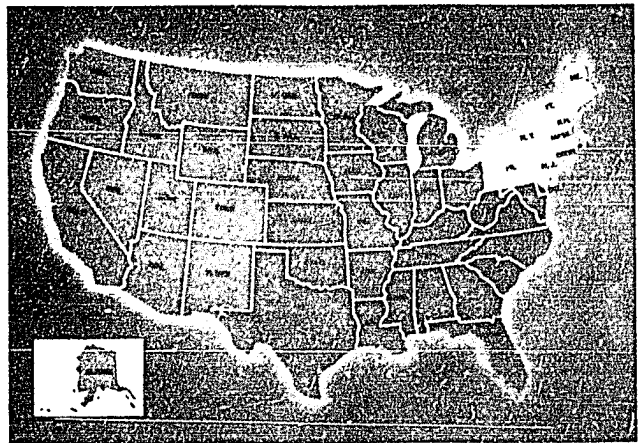
Alabama 18
 Arkansas 19
 Delaware 4
 Florida 33
 Georgia 23
 Kentucky 23
 Louisiana 16
 Maryland 5
 Mississippi 22
 North Carolina 34
 Oklahoma 47
 South Carolina 13
 Tennessee 25
 Texas 138
 Virginia 22
 Washington, D.C. 2
 West Virginia 13

IN THE NORTH CENTRAL—633

Illinois 53
 Indiana 55
 Iowa 67
 Kansas 60
 Michigan 57
 Minnesota 60
 Missouri 53
 Nebraska 38
 North Dakota 22
 Ohio 84
 South Dakota 22
 Wisconsin 62

IN THE NORTHEAST—132

Connecticut 5
 Maine 6
 Massachusetts 6
 New Hampshire 3
 New Jersey 9
 New York 38
 Pennsylvania 63
 Vermont 2



32 NEW STORES OPENED

CALIFORNIA

El Centro, Valley Plaza Shopping Center
 Palm Springs, Palm Springs Shopping Center
 Santa Maria, Santa Maria Shopping Center
 Ventura, Buenaventura Plaza Shopping Center

FLORIDA

Sanford, Sanford Shopping Center

GEORGIA

Atlanta, Greenbriar Shopping Center
 Columbus, Columbus Square

ILLINOIS

Chicago, Ford City Shopping Center
 Freeport, Freeport Mall Shopping Center

INDIANA

Peru, Broadway Plaza Shopping Center
 Shelbyville, Belaire Shopping Center

IOWA

Fort Dodge, Crossroads Shopping Center

LOUISIANA

Monroe, Mid City Plaza Shopping Center

MINNESOTA

St. Cloud, Crossroads Shopping Center

MISSOURI

Columbia, Parkade Plaza Shopping Center
 Hannibal, Huck Finn Shopping Center
 St. Joseph, East Hills Shopping Center

NEBRASKA

Holdrege

NORTH CAROLINA

Wilson, Parkwood Shopping Center

OHIO

Canton, Mellett Mall Shopping Center
 Chillicothe
 Lima, Lima Mall

OKLAHOMA

Tulsa, Southland Shopping Center

TENNESSEE

Alcoa, Midland Shopping Center
 Chattanooga, Eastgate Shopping Center

TEXAS

Dallas, NorthPark Shopping Center
 Seguin, Oak Park Shopping Center

VIRGINIA

Martinsville, Patrick Henry Mall

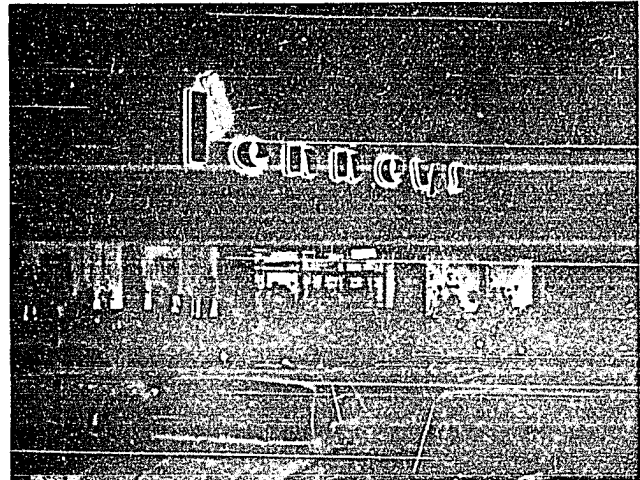
WASHINGTON

Seattle, Northgate Shopping Center
 Spokane, University City Shopping Center
 Tacoma, Tacoma Mall Shopping Center

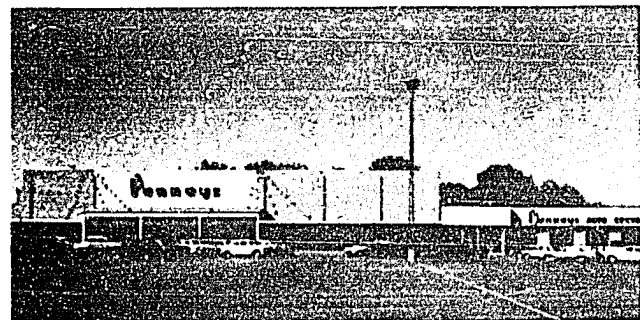
WEST VIRGINIA

Martinsburg, Berkeley Plaza Shopping Center

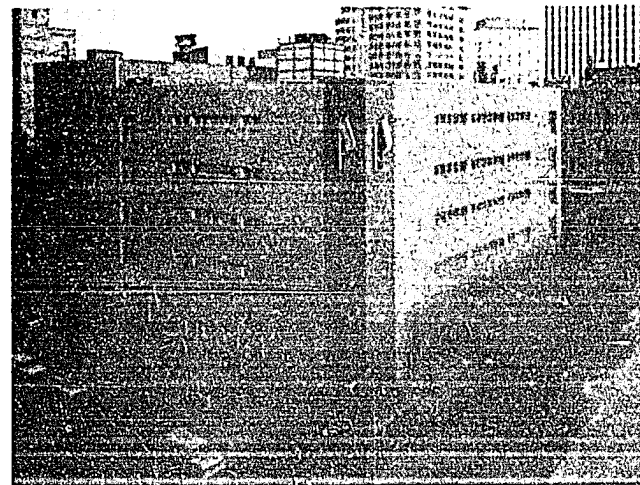
Penney's new store at Columbus Square, Columbus, Georgia, has an area of more than 100,000 square feet—approximately five times as large as the old unit it replaced. The store had the first auto center in Georgia to carry Penney's own gasoline.



One of Penney's first auto centers in Missouri went into operation last September, when this new store opened at Huck Finn Shopping Center, Hannibal. The new unit, three times larger than the former Penney's it replaced, offers some of the Company's new hard lines as well as traditional soft goods.



The goal of upgrading existing physical plant was reflected in the modernization of our downtown store in Denver, Colorado. During the project, completed in 1965, the Company's new lines of hard goods including household appliances were introduced, and the exterior updated with the new "Penney" signature.



REVIEW OF 1965 OPERATIONS

Sales, Earnings Set Records

New highs in sales and earnings were attained by your Company in fiscal 1965.

Sales climbed 10.1 per cent to \$2,289,209,426, marking the 11th straight year of gains in volume. January, 1966 was the 34th consecutive month in which a sales increase was registered.

Net earnings rose to \$78,898,254, or \$3.16 a share, a 15.6 per cent increase over last year's record \$68,271,402, or \$2.74 a share. Earnings for 1965 include a non-recurring profit of \$2,840,865, or 11 cents a share, from the sale of our former headquarters building in New York.

Credit Sales Expand

Further increases were recorded in credit sales as customers showed still greater preference for the convenience of their Penney charge card. Credit sales amounted to \$756,846,283, or 33.1 per cent of total sales, against 30.3 per cent last year.

Customer receivables also rose, amounting at year's end to \$361,633,960, including those sold to the J. C. Penney Credit Corporation. The total receivables represented nearly 6 million accounts of customers located throughout the country.

We have a highly efficient retail credit operation, which makes extensive use of automated equipment. However, total costs of our credit program continue to exceed service charge income, although this net cost difference declined in 1965.

Service charge income is directly related to the size of the

average customer balance. A large portion of our sales consists of soft goods, which do not tend to generate large average balances.

While we constantly work toward lowering the net cost of our credit program, we are enjoying the benefits of credit as a merchandising tool. It has enabled us to increase sales and also made possible our continuing expansion into higher-priced merchandise.

J. C. Penney Credit Corporation

J. C. Penney Credit Corporation, a wholly-owned subsidiary, completed its second year of operations in fiscal 1965 with higher levels of activity in all areas. The Credit Corporation purchases from the parent company customer receivables arising from credit sales. Total receivables purchased in 1965 were \$775,852,543 compared with \$614,039,023 in the preceding year. The principal reason for this increase was Penney's expanding retail credit sales.

Net earnings of the Credit Corporation for the year also rose, amounting to \$2,824,736 against \$1,193,053 the prior year. These earnings were derived from monthly charges to the parent which provide the Credit Corporation with adequate earnings coverage relative to its fixed charges, chiefly interest. The Credit Corporation does not bear any of the cost of administering the parent's retail credit activity, nor does its income reflect in any way service charges paid on customer accounts.

Federal Tax Rate

The effective federal income tax rate for 1965 was 46.4 per cent against 46.6 per cent in 1964. The investment credit for 1965 was \$2,305,000 versus \$1,810,700 in the prior year. Taxes, other than federal income taxes, totaled \$29,292,964 compared with \$25,580,281 in 1964.

Depreciation

In 1962, the Company adopted for income tax purposes the guideline lives for furniture, fixtures and equipment established by the United States Treasury. However, for financial accounting purposes, such lives were adopted only for assets acquired after February 1, 1962. In both instances, accelerated methods of depreciation are utilized. Accumulated deferred tax due to the adoption of guideline lives amounted to \$10,000,000 as of January 29, 1966.

Capital Expenditures

Capital expenditures, representing acquisitions of fixtures, land and buildings and improvements to leaseholds, amounted to \$45.8 million in 1965. Capital spending in 1966 should exceed this figure.

The projected increase is attributable to the various phases of our continuing expansion program as described throughout this report.

At the same time, expenditures by landlords on Penney stores during 1966 are expected to approximate \$50 million against \$32 million in 1965.

New Fiscal Year Adopted

In order to provide more meaningful comparisons of sales and

earnings between years, the Company has discontinued reporting on a calendar month basis and adopted a standard fiscal year of 52 weeks. Each quarter consists of 13 weeks, with interim periods recurring on a 5-4-4 weeks basis. Depending on the incidence of Leap Year, a 53-week year will occur each 5 or 6 years. Although this change resulted in one less selling day during the 1965 fiscal year compared with the prior year, the effect on earnings was not material.

Directors Meet in Midwest

The July, 1965 meeting of your board of directors was held in Milwaukee to give members an opportunity to see at first-hand some of the Company's newer activities, including the catalog distribution center and a Treasure Island store.

From Milwaukee, the group traveled to Warsaw, Indiana, for the dedication of the new plant constructed by R. R. Donnelley & Sons Company to print Penney catalogs. The final stop was Chicago, where the directors inspected the new Penney store at Ford City Shopping Center.

Treasure Island to Expand

Plans for expanding our Treasure Island operation in Wisconsin by approximately 500,000 square feet were announced during 1965. The bulk of this expansion will be in Milwaukee, where we will construct our fourth Treasure Island store in the area and the sixth in Wisconsin, add home centers to two existing stores, and erect a warehouse to service all the

Treasure Island units. This construction is expected to be completed by summer, 1967. In addition, the existing unit at Appleton will be approximately doubled in size during 1966.

Treasure Island stores continue to serve the Penney Company as a retailing laboratory where new approaches can be tested. They are free-standing stores featuring a self-service, check-out type of operation.

Amendment of Penco Plan

After a comprehensive review of the Penco Profit-Sharing Retirement Plan in relation to the retirement programs of comparable companies and in light of experience with the plan and changing conditions, the board of directors adopted substantial amendments to the plan and renamed it the Penco Retirement Plan. The amendments became effective February 1, 1966, subject to the approval of stockholders at the annual meeting to be held on May 17, 1966. The proxy statement for the annual meeting describes the amendments in detail.

New Corporate Department

Your Company established during the year a new corporate department in recognition of the increasing importance and growth of data processing, systems planning and development, and merchandise warehousing and physical distribution. Formerly assigned to a number of different areas within the Company, these activities were consolidated into the Technical and Distribution Services Department. Major func-

tion of the new department is to assure effective support for our over-all merchandising and operating programs.

Personnel Changes

Walter B. Wriston, executive vice president of First National City Bank, New York, was elected to the board of directors at the 1965 annual meeting, filling the vacancy created by the mandatory retirement from the board of Howard C. Sheperd at age 70.

Everett L. Moore retired as a director and as vice president and director of real estate and store planning on January 29, 1966. He was succeeded by Oakley S. Evans.

Mr. Evans has spent his entire business career with Penney's, having joined the firm in 1935. After serving in store management and district management, Mr. Evans was transferred to the Central Office in 1953. He has been involved in a number of areas significant to our long-range expansion program, most recently as assistant director of real estate and store planning.

Woodrow P. Campbell was appointed director of the new Technical and Distribution Services Department described above. Mr. Campbell's career closely parallels that of Mr. Evans. After joining the Company in 1935, he went into store management and then district management. Mr. Campbell was transferred to the Central Office in 1960 as assistant to the director of stores and was director of planning and research prior to his most recent appointment.

BALANCE SHEET

	ASSETS	January 29 1966	January 31 1965
Current assets			
Cash		\$ 49,571,012	\$ 44,145,563
Receivables, less allowance for doubtful accounts of \$15,068,082 and \$12,043,503		373,080,537	294,762,969
Deduct portion sold to J. C. Penney Credit Corporation, less 5% withheld pending collection		298,672,486	187,998,214
		74,408,051	106,764,755
Merchandise, at lower of cost or market determined mainly by the retail method		384,478,234	310,620,911
Prepaid expenses		9,400,850	9,391,124
Total current assets		517,858,147	470,922,353
Subsidiary companies, at equity in net assets (note 1)		64,611,006	60,730,468
Property and equipment, at cost			
Land		5,468,482	4,045,407
Buildings, less depreciation of \$3,437,239 and \$5,805,191		21,127,419	14,327,953
Furniture and fixtures, less depreciation of \$104,605,937 and \$97,529,395		96,934,065	84,275,171
Improvements to leaseholds, less amortization of \$5,544,687 and \$5,179,932		11,089,667	9,504,344
		134,619,633	112,152,875
Deferred charges		2,022,053	1,973,898
		\$719,110,839	\$645,779,594

NOTES TO FINANCIAL STATEMENTS

1. The Company's net equity in its subsidiaries comprises \$54,017,789 in J. C. Penney Credit Corporation and \$10,593,217 in J. C. Penney Properties, Inc. Both subsidiary companies derive substantially all their revenues from the J. C. Penney Company. The balance sheet of J. C. Penney Credit Corporation is presented separately. The balance sheet of J. C. Penney Properties, Inc. is omitted as immaterial; this subsidiary had no debt or commitments other than to the parent company.

2. Deferred income taxes applicable to installment sales are now required by the Securities and Exchange Commission to be classified as a current liability. This item was classified as a non-current liability in prior years' financial statements.

3. A qualified stock option plan for 300,000 shares of common stock was approved by stockholders in 1965. These options are exercisable within five years after date of grant to the extent of 40% after the first year and an additional 20% after each succeeding year. At January 29, 1966 options had been granted for 66,800 shares at \$68.00 per share, representing 100% of the fair market value at date of grant. No options had been exercised or were exercisable at the balance sheet date.

Of the 373 shares of common stock reserved at February 1, 1965 for stock options granted in connection with an acquisition in 1962, an option for 280 shares remains exercisable at \$39.02 per share on or before May 16, 1971; an option for 93 shares at \$38.91 per share was exercised during the year.

LIABILITIES

	January 29 1966	January 31 1965
Current liabilities		
Accounts payable and accrued liabilities	\$178,282,233	\$152,021,618
Dividends payable in February	14,968,331	14,968,275
Federal income taxes		
Current	34,886,391	35,283,610
Deferred, applicable to installment sales (note 2)	44,000,000	33,900,000
Total current liabilities	272,136,955	236,173,503
Deferred Federal income taxes, applicable to depreciation	10,000,000	8,500,000
Stockholders' equity (note 3)		
Common stock—par value \$1		
Authorized, 27,000,000 shares		
Issued, 24,947,219 shares	39,345,369	39,341,750
Retained earnings	397,628,515	361,764,341
Total stockholders' equity	436,973,884	401,106,091
	<u>\$719,110,839</u>	<u>\$645,779,594</u>

4. The Company's costs and expenses as reported to the Securities and Exchange Commission are summarized as follows:

	52 weeks ended January 29, 1966	Year ended January 31, 1965
Cost of goods sold, occupancy, buying and warehousing costs	\$1,669,086,370	\$1,529,737,167
Selling, publicity, general and administrative expenses, other than items included in costs, less service charges on customers' accounts	463,774,820	410,897,041
Interest, doubtful accounts, miscellaneous income and other items	19,930,449	13,331,794
Federal income taxes	63,200,000	58,400,000
Total costs and expenses	<u>\$2,215,991,639</u>	<u>\$2,012,366,002</u>

5. The Company conducts the major part of its operations from leased premises. Substantially all leases will expire during the next 35 years; in the normal course of business, however, leases are renewed or replaced by leases on other properties. Minimum annual rentals at January 29, 1966 amounted to approximately \$30,000,000; rent expense for the year includes rent based on sales.

6. Subject to the approval of stockholders, the Company's retirement plan has been amended, effective February 1, 1966, to include contributory pensions based on service after January 31, 1966.

J. C. PENNEY COMPANY

STATEMENT OF EARNINGS

	52 weeks ended January 29, 1966	Year ended January 31, 1965
Sales	\$2,229,209,426	\$2,079,425,668
Costs and expenses (note 4)		
Cost of merchandise sold, selling and general expenses	1,005,771,554	1,831,533,864
Rents (note 5)	63,476,466	54,965,628
Maintenance and repairs	6,475,575	5,678,575
Depreciation	19,208,984	16,539,896
Interest, principally discount on receivables sold to J. C. Penney Credit Corporation	15,906,069	8,548,332
Company contribution to retirement plan (note 6)	12,655,027	11,119,426
Taxes, other than Federal income taxes	29,292,904	25,580,281
Federal income taxes	63,200,000	58,400,000
Total costs and expenses	2,215,991,629	2,012,366,002
Earnings before subsidiary companies and gain on sale of headquarters building	73,217,787	67,059,666
Net earnings of subsidiary companies (principally J. C. Penney Credit Corporation) after Federal income taxes of \$2,604,000 and \$1,202,000	2,639,002	1,211,736
Net gain on sale of headquarters building after Federal income taxes of \$860,700	2,340,000	—
Net earnings for the year	\$ 78,196,794	\$ 68,271,402

STATEMENT OF RETAINED EARNINGS

Balance at beginning of year	\$ 351,764,341	\$ 325,456,744
Net earnings for the year	78,896,254	68,271,402
Special credit—self-insurance reserves transferred to retained earnings	—	5,443,031
Deduct dividends—\$1.72½ in 1965, \$1.50 in 1964	42,034,080	37,406,836
Retained earnings at end of year	\$ 397,628,515	\$ 361,764,341

(See accompanying notes to financial statements on pages 14 and 15)

ACCOUNTANTS' REPORT

To the Stockholders and the Board of Directors

J. C. Penney Company:

We have examined the balance sheet of J. C. Penney Company as of January 29, 1966 and the related statements of earnings and retained earnings for the 52 weeks then ended. We have also examined the balance sheet of J. C. Penney Credit Corporation as of January 29, 1966. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of J. C. Penney Company at January 29, 1966 and the results of its operations for the 52 weeks then ended, and the financial position of J. C. Penney Credit Corporation at January 29, 1966, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N.Y.
March 23, 1966

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants

J. C. PENNEY CREDIT CORPORATION**BALANCE SHEET****ASSETS**

	January 29 1966	January 31 1965
Current assets		
Customer receivables purchased from J. C. Penney Company, less 5% withheld pending collection, and \$2,284,243		
unearned discount at January 31, 1965 (note)	\$298,672,486	\$185,713,971
Cash	1,194,134	1,016,661
Marketable securities, at cost which approximates market	7,199,100	—
Prepaid interest and other expenses	284,434	331,907
Total current assets.	<u>307,350,154</u>	<u>187,062,539</u>
Leasehold improvements and furniture	14,738	13,992
Unamortized debenture discount and expense	954,826	1,006,672
Unamortized organization expense	42,147	54,951
	<u>\$308,361,865</u>	<u>\$188,138,154</u>

LIABILITIES

Current liabilities		
Notes payable	\$202,619,000	\$ 85,934,500
Accrued interest and other liabilities	311,634	292,041
Federal income taxes	1,413,442	718,560
Total current liabilities	<u>204,344,076</u>	<u>86,945,101</u>
Long-term debt		
4½% debentures due July 1, 1984	50,000,000	50,000,000
Equity of J. C. Penney Company		
Common stock, \$100 par value		
Authorized, 750,000 shares—Issued, 500,000 shares	50,000,000	50,000,000
Retained earnings at beginning of period	1,193,053	—
Net earnings for the period	2,824,736	1,193,053
	<u>54,017,789</u>	<u>51,193,053</u>
	<u>\$308,361,865</u>	<u>\$188,138,154</u>

NOTE

The agreement covering the purchase of customer receivables from J. C. Penney Company was amended as of May, 1965 to provide that payment of the discount applicable to customer receivables held during each monthly accounting period shall be deferred until the end of such accounting period. Begin-

ning with the May, 1965 accounting period, payments of discount have been credited directly to earnings. Discount on customer receivables, together with other income, is calculated to produce earnings sufficient to cover the Corporation's fixed charges at least one and one-half times.

10-YEAR FINANCIAL REVIEW

Year†	1965	1964	1963	1962
RESULTS FOR YEAR				
Sales	\$ 2,289,209,426	2,079,425,668	1,834,317,527	1,701,332,645
Earnings before federal taxes				
Parent	\$ 136,417,787‡	125,459,666	109,875,476	114,404,070
Unconsolidated subsidiaries	\$ 5,443,602	2,413,736	23,722	—
Total	\$ 141,861,389‡	127,873,402	109,899,198	114,404,070
Per cent of sales	% 6.20‡	6.15	5.99	6.72
Net earnings				
Amount	\$ 78,898,254‡	68,271,402	55,292,198	54,804,070
Per share*	\$ 3.16‡	2.74	2.22	2.20
Per cent of sales	% 3.45‡	3.28	3.01	3.22
Dividends				
Amount	\$ 43,034,080	37,406,836	37,391,768	37,386,567
Per share*	\$ 1.72½	1.50	1.50	1.50
Increase in retained earnings	\$ 35,864,174	36,307,597	17,900,430	17,417,503
Depreciation	\$ 19,208,984	16,539,896	15,365,358	14,961,559
Capital expenditures	\$ 45,828,764	39,835,780	19,966,950	18,549,440
Credit sales per cent of total sales	% 33.1	30.3	27.6	24.7
END OF YEAR				
Customer receivables (net)				
Parent	\$ 62,961,474	101,080,971	224,789,049	168,659,516
J. C. Penney Credit Corporation	\$ 298,672,486	187,998,214	—	—
Stockholders' equity	\$ 436,973,884	401,106,091	364,143,440	346,061,271
Number of stockholders	53,126	51,580	47,863	45,315
Catalog sales centers	458	405	146	21
Stores in operation	1,669	1,676	1,680	1,685

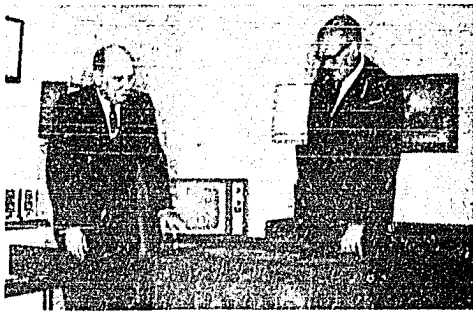
‡ Earnings before federal taxes for 1965 exclude gain on sale of headquarters building. This net gain of \$2,840,865 (11 cents per share) is included in net earnings.

* Figures based on shares outstanding at each year end. Prior years adjusted for 3 for 1 split in May, 1960.

† Year 1965 is the 52-week period ended January 29, 1966; 1959 through 1964 are fiscal years ended January 31 of the subsequent year; 1958 is the 13-month period ended January 31, 1959, and 1956 and 1957 are calendar years.

J. C. PENNEY COMPANY

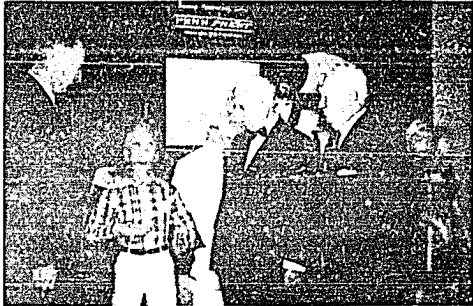
1961	1960	1959	1958	1957	1956
1,553,505,660	1,468,917,982	1,437,489,357	1,409,972,649	1,312,278,407	1,291,867,267
107,638,552	94,094,095	108,023,734	95,376,831	102,560,891	97,130,721
—	—	—	—	—	—
107,638,552	94,094,095	108,023,734	95,376,831	102,560,891	97,130,721
6.93	6.40	7.51	6.76	7.82	7.52
51,738,552	44,994,095	51,523,734	46,876,831	49,410,891	46,780,721
2.10	1.82	2.09	1.90	2.00	1.89
3.33	3.06	3.58	3.32	3.77	3.62
37,043,784	37,043,784	33,339,405	34,985,796	34,985,796	34,985,796
1.50	1.50	1.35	1.42	1.42	1.42
14,694,768	7,950,311	18,184,329	11,891,035	14,425,095	11,794,925
13,793,559	12,537,040	11,527,181	11,790,207	10,062,449	8,783,512
18,195,230	20,201,386	15,918,373	16,392,361	12,470,143	15,986,374
17.1	8.5	2.8	.3	—	—
97,722,383	52,208,936	19,393,451	2,658,177	—	—
—	—	—	—	—	—
323,014,262	308,319,494	300,369,182	282,184,854	270,293,818	255,868,723
41,748	39,136	34,766	33,997	33,720	31,695
—	—	—	—	—	—
1,686	1,695	1,683	1,687	1,694	1,687



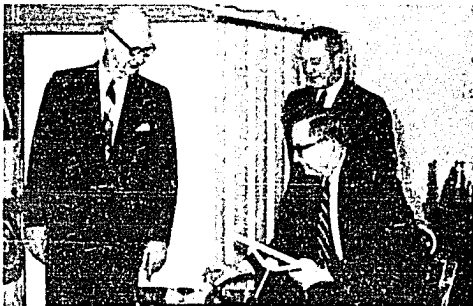
William M. Batten, left, and Wellington Powell



Left to right Ray H. Jordan, Cecil L. Wright, and William L. Marshall



Left to right Fred A. Bantz, James Cash Penney, and Earl A. Ross



Left to right Frederick R. Seltzer and Everett L. Moore, both standing, and Kenneth S. Axelson, seated



Walter B. Wriston, left, and Albert W. Hughes

DIRECTORS

Kenneth S. Axelson
 Fred A. Bantz
 William M. Batten
 Albert W. Hughes
 Ray H. Jordan
 William L. Marshall
 Everett L. Moore*
 J. C. Penney
 Wellington Powell
 Earl A. Ross
 Frederick R. Seltzer
 Cecil L. Wright
 Walter B. Wriston

OFFICERS

William M. Batten
Chairman of the Board
 Ray H. Jordan
President
 Kenneth S. Axelson
Vice President and Director of Finance
 William L. Marshall
Vice President and Director of Stores
 Everett L. Moore*
Vice President and Director of Real Estate and Store Planning
 Frederick R. Seltzer
Vice President and Director of Personnel
 Cecil L. Wright
Vice President and General Sales and Merchandise Manager
 Arthur Jacobsen
Treasurer
 Charles T. Stewart
Secretary and General Counsel
 Robert L. Adair
Controller
 Paul R. Kaltinick
Assistant Treasurer
 Albert W. Driver, Jr.
Assistant Secretary
 Elting H. Smith
Assistant Secretary
 L. Eric Ericson
Assistant Controller
 John F. Wood
Assistant Controller

TRANSFER AGENT

Chemical Bank
 New York Trust Company
 20 Pine Street
 New York, New York 10015

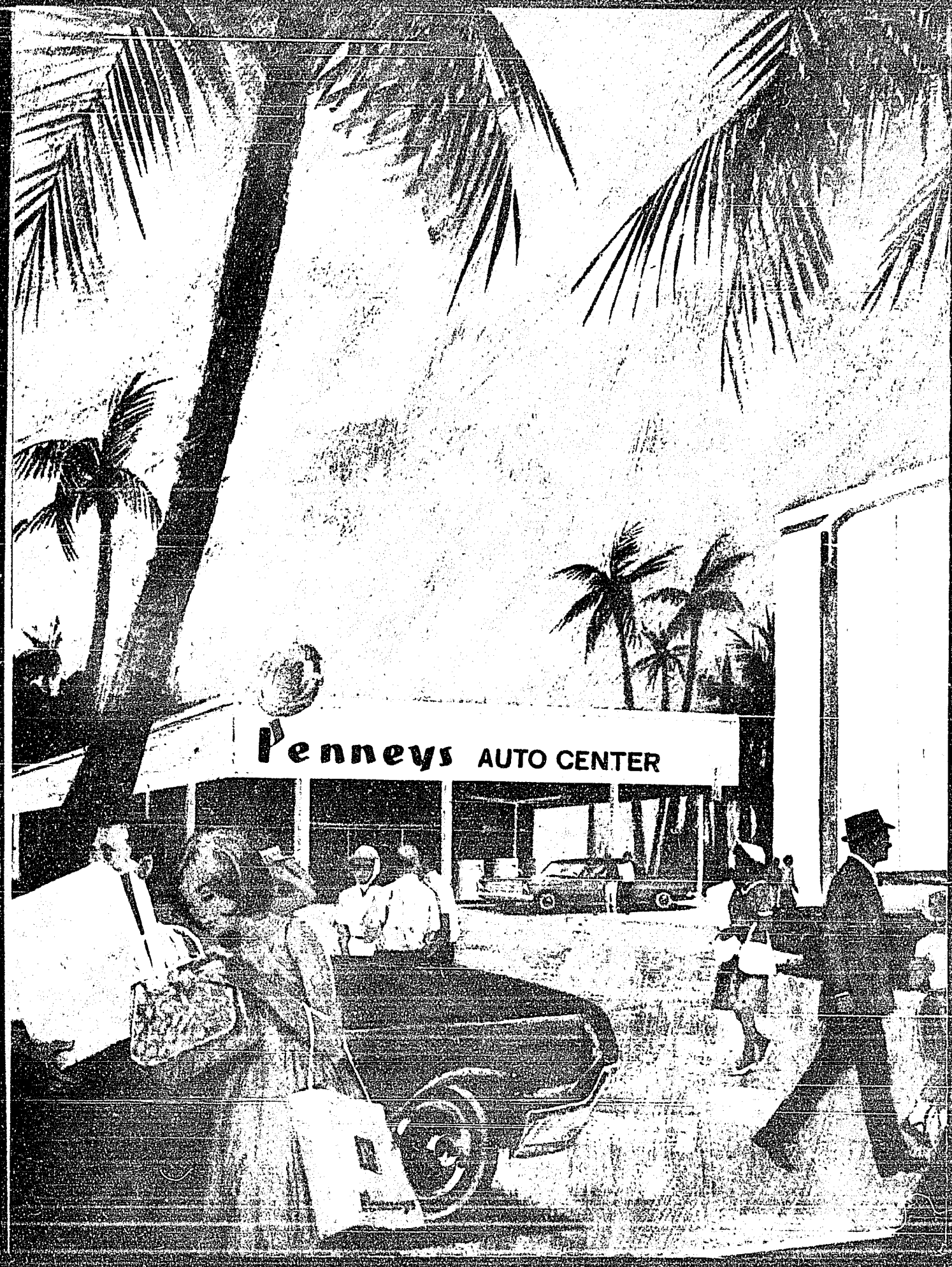
REGISTRAR

The Chase Manhattan Bank
 1 Chase Manhattan Plaza
 New York, New York 10015

ANNUAL MEETING

The annual meeting of stockholders will be held at 10 a.m. Tuesday, May 17, 1966, in the Trianon Ballroom, New York Hilton Hotel, 1335 Avenue of the Americas, New York, N.Y. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 7. Your prompt attention to the proxy statement will be greatly appreciated.

*Everett L. Moore retired as a director and an officer of the Company on January 29, 1966. He was succeeded by Oakley S. Evans as an officer on January 30, 1966, and as a director on February 23, 1966.



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